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GENERAL DISCUSSION OF INTERNATIONAL ECONOMIC AND SOCIAL POLICY, INCLUDING REGIONAL AND SECTORAL DEVELOPMENTS

National entrepreneurs in economic development

Report of the Secretary-General

Summary

The report analyses the role played by entrepreneurship in the economic development of developing countries. It is composed of nine sections, each devoted to a different aspect of promoting indigenous entrepreneurship.

The paper begins with a description of the enterprise culture and the components that seem to encourage entrepreneurship in some societies. Attention is paid to education and training aimed at improving entrepreneurial skills. The question of sources of entrepreneurs and of ways to attract special groups, particularly women and youth, is discussed.

The body of the report is focused on the national policy environment and on policies encouraging, as well as inhibiting, entrepreneurship in developing countries. In this regard, successful examples and policies are cited, and suggestions are made for reducing the impediments to creating successful indigenous

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enterprises. From an international perspective, the role of various forms of co-operation between national and foreign enterprises is highlighted. Also described are effective approaches that international organizations have employed to encourage the process of promoting entrepreneurship in developing countries. The role of bilateral donors and the contribution of the United Nations system is stressed.

In conclusion, the paper sums up the impact of the international economic policy environment on the development of indigenous entrepreneurship and the prospects for developing countries in that connection.

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I. INTRODUCTION

1. National entrepreneurship has been found to play an important role in promoting economic development, creation of employment and technological advancement in both developed and developing countries. While the precise economic, social and psychological factors that motivate entrepreneurship are not well established, it is generally accepted that in addition to societal norms that foster entrepreneurship, government policies that support the successful realization of entrepreneurial ventures have a major positive impact on the supply of entrepreneurs and the growth of national enterprise. National macroeconomic policies and reforms that minimize price distortions and improve domestic and external economic balance help to create an economic environment conducive to the development of enterprise. Further, government policies targeting the development of entrepreneurs, improved access to and availability of finance, the development of a balanced system of commercial and financial regulations, and the optimum sequencing of policies are crucial to the development of national enterprise. In addition, a favourable international economic environment, in particular, accessible markets for developing country exports, is necessary for enterprise development.

2. In recognition of the economic, social and policy issues in the contribution of national enterprise to economic development, the Economic and Social Council, in its resolution 1988/74 of 29 July 1988, while reaffirming General Assembly resolution 41/182 of 8 December 1986 on indigenous entrepreneurs in economic development, recognizing the work of the United Nations system in that field and taking note of the report of the Secretary-General on the topic (A/43/360-E/1988/63), requested the Secretary-General to undertake a study on measures to promote the contribution of national entrepreneurs to the economic development of developing countries, taking into account the need for a positive international economic environment and to prepare a report for submission to the Assembly at its forty-fifth session, through the Council. The present report is in response to that request.

II. ENTREPRENEURSHIP AND ENTERPRISE CULTURE

3. It is a fundamental question why some societies develop a much higher level of entrepreneurship than do others. Economies with a high level of entrepreneurship have grown at a much faster rate. The Asian island economies of Singapore and the Territory of Hong Kong are examples of highly entrepreneurial societies. The inhabitants of other Asian countries - the Republic of Korea, Thailand and some states of India - show great entrepreneurial energy and dynamism.

4. However, many of the lesser developed countries have a relatively low overall level of entrepreneurship. The most energetic and talented among the indigenous people do not seek to become entrepreneurs. Instead, they prefer the security of government employment or jobs in foreign-owned corporations or careers in politics. Yet others who could provide sources of entrepreneurship migrate, seeking employment overseas.

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5. The abundance of entrepreneurship in some countries and the lack of it in others have claimed the attention of many researchers. The research conducted indicates that the explanation is complex. Certainly, the existence of a conducive or enabling environment in which the Government and society foster positive attitudes to entrepreneurship and government policies that support and strengthen that trend are major factors. In such communities, entrepreneurs are accorded respect and status and face far fewer impediments to starting and operating businesses. There is, in fact, what has of late been referred to as an "enterprise culture", where the majority of the better qualified, more ambitious and abler youth look to business and industry for the fulfillment of their career ambitions. An enterprise culture, while not universally accepted as an ideal model for all societies (sometimes it is not balanced by social programmes that cater to the less successful and poorer elements of society), has been defined as a set of values, attitudes and beliefs in the community that supports independent entrepreneurial behaviour in a business context.

6. The main components that promote the existence of an enterprise culture within a community are (a) abundant positive role images of successful independent businesses, (b) an opportunity to practice entrepreneurial attributes, which is reinforced by cultural factors during the formative years, (c) the provision, formally and/or informally, of knowledge and insight into the process of independent business management, (d) a network of independent business or family contacts and acquaintances that reinforce familiarity and provide market entry opportunities, and (e) ample opportunity, especially among youth, for familiarization with small business tasks.

7. The enterprise culture and the flowering of entrepreneurship are usually associated with a political framework that is sympathetic to the growth of small independent businesses, although it may exist even where the broad political environment is not encouraging. In such circumstances, entrepreneurship develops into a thriving informal or underground sector in defiance of government regulations and restrictions. A large number of developing countries provide evidence of such developments.

III. EDUCATION AND DEVELOPMENT OF ENTREPRENEURSHIP

8. The discussion as to whether an entrepreneur is born with the required attributes or can be trained to become one is longstanding. Even those who accept that not everyone has the inherent personality characteristics to become an entrepreneur - and they are probably the majority today - would agree that individuals can be influenced to assume an entrepreneurial role through education and training. There is no doubt that in some developing countries the prevailing educational system not only does not enhance the concept of an enterprise culture but even works strongly against it. Few educational systems go beyond the acquisition of knowledge by students to an attempt to infuse the importance of innovation, creativity and the ability to respond to different situations and to confront challenges or undertake risks, all of which would help strengthen the entrepreneurial attributes in the younger members of the society. Many developing countries realize that more needs to be done to move the education sector from a

pursuit of purely academic objectives to educating students towards entrepreneurial activities.

9. Developing countries need to adapt the content and methods of their educational system to reinforce the traits of entrepreneurship within youth. Educational changes could make an important contribution to enhancing the status of the entrepreneur model and to stimulating more young people to embark on independent business careers.

10. Some believe that entrepreneurial traits are acquired at birth, similar to artistic or musical abilities. Others hold out that everyone can become a successful entrepreneur if given appropriate education and training. Some academic circles still believe that a direct positive correlation exists between educational accomplishments and success in business and entrepreneurship. However, most evidence from research does not bear that out.

11. Studies of entrepreneurship have listed more than 20 or even over 30 different traits that characterize successful entrepreneurs. Most recognize that not all successful entrepreneurs have all or even most of those traits. The following are among the more significant traits that characterize successful entrepreneurs: a strong urge for independence, self-reliance and high self-confidence, propensity for moderate risk taking, initiative, problem solving ability, perseverance and readiness for hard work, flexibility, and innovative and creative thinking.

12. Of course, some attributes are more evident and of greater significance in starting a business than in the daily running of an enterprise. When businesses are in operation, the entrepreneur becomes an owner-manager, and successful performance may depend on management skills rather than entrepreneurial behaviour. Many persons who have strong entrepreneurial traits may be poor managers, since management requires skills such as a proper handling of people and the direction and co-ordination of activities.

13. Efforts have been made to select persons with entrepreneurial personalities and to strengthen their abilities through training, which can increase the number of successful entrepreneurs. In that context, one distinguishes between achievement motivation training and entrepreneurship development programmes; the latter include not only achievement motivation training but also management training, the improvement of marketing skills and assistance in preparing business plans. The training element of such a programme could be part of wider small business promotion programmes, which would include credit schemes, extension or advisory services, industrial estates and other direct support activities to assist new and existing enterprises.

14. Behavioural scientists started with achievement motivation training in the early 1960s but, though successful in that the business performance of those who passed through the training was superior to that of others who had not, they did not actually succeed in creating new entrepreneurs. Rather, they made better entrepreneurs of those already in business.

15. However, when the efforts of behavioural scientists were taken up in Gujarat, India, the concept of achievement motivation training was expanded and became the first stage of an entrepreneurship development programme that became part of a small business promotion programme, which resulted in the actual establishment of new small enterprises by those who had been screened and trained. That highly successful programme for creating indigenous entrepreneurship followed (a) selection of potential entrepreneurs, (b) achievement motivation training, (c) production selection and preparation of a business plan, (d) business management training, (e) practical training and work experience and (f) post-training support in obtaining factory sheds, financial assistance, raw materials and technical advice. The Gujarat entrepreneurship development programme was followed with similar programmes throughout India and has become a model for many entrepreneurship development programmes in other developing countries.

16. A study published in the early 1980s identified over 100 such programmes throughout the world. Of these, 53 supplied information on their results. On average, those that responded indicated that they had selected around 50 per cent of those who applied for participation in the programme, and 66 per cent stated that they preferred applicants who had a specific business idea. Most of the 53 programmes (62 per cent) did not impose any minimum standard of education beyond literacy; 69 per cent did not use psychological tests of any sort when selecting applicants, while 77 per cent used evidence of some previous entrepreneurial initiative as a major qualification for entry into the training. Most programmes claimed that they followed up their trainees but only two thirds of the programme directors were able to state how many of the trainees had actually started businesses. Of those who did provide information, it was claimed that an average of 39 per cent actually started businesses at the end of the programme. Over two thirds of the programmes reported that they had facilitated access to credit for their trainees.

17. This and similar studies indicate clearly that the best results were achieved by entrepreneurship development programmes when the programme was integrated with management training and linked to a business support programme that helped the graduates to obtain financing and technical, managerial and marketing advice. Most programmes today are run for participants from urban areas or semi-urban areas where the potential for small enterprise development is significant. Clearly, the availability of infrastructure or communications or other support facilities is needed to make a programme effective.

IV. SOURCES OF ENTREPRENEURS AND TARGET GROUPS FOR DEVELOPMENT OF ENTREPRENEURSHIP

18. In some countries, it is believed that the indigenous entrepreneurs are most likely to come from university graduates or from educated people. Indeed, some graduates do start enterprises that produce items with a technological content or go into fields such as pharmaceuticals, food processing, electronics or chemical products. In a few cases, graduates seek to take over and expand small family business, but generally, in developing countries, university graduates are not a great source of small-scale business. Some even argue that persons with academic

qualifications are less suited to the requirements of entrepreneurship where initiative, problem solving ability and a propensity for risk taking are more important than academic knowledge and facts. However, in India and in some Latin American countries where unemployment among university graduates has developed into an acute problem, special programmes have been launched to train such graduates in entrepreneurship and business management. Special financing schemes and other forms of direct assistance, such as the establishment of premises and the provision of marketing assistance, have been offered to help graduates to start their own businesses. Under pressure of lack of alternatives, some graduates have adapted themselves to becoming independent businessmen.

19. As in the case of university graduates, lack of employment opportunities is a major, if negative, factor in stimulating entrepreneurship. This is particularly so in developed countries. In developing countries, such unemployed persons engage in informal business activities. The main sources of indigenous entrepreneurs in those countries are skilled and semi-skilled workers, artisans and cottage industry employees, traders, and government and public employees.

20. Skilled and semi-skilled workers who have worked for large, often state-owned and foreign-owned enterprises and either have been made redundant and jobless or have a strong urge to be independent workers are an important source of entrepreneurs. While those workers are a major source of entrepreneurs in developed countries, they are a much smaller reservoir of entrepreneurs in developing countries.

21. Artisans and cottage industries, which exist in large numbers in most developing countries, are another source of entrepreneurs. Some new entrepreneurs are persons and even whole communities engaged in traditional crafts based on skills passed over generations, while others' only source of livelihood is their work in the utilitarian artisanal activities (tinsmiths, cobblers, seamstresses etc.) from the informal sector. In some developing countries, the traditional artisanal sector is of considerable economic importance (Philippines, Indonesia, Ecuador, Nepal etc.) and make significant contributions both to employment and to exports. In other countries, the informal sector with its many semi-skilled artisans is the more significant in terms of employment and output (Peru, Colombia, Kenya etc.).

22. In some respects, artisans and cottage industries are already engaged in some rudimentary form of entrepreneurship and can therefore be stimulated and assisted to become formal small-scale entrepreneurs. There are many programmes for all those artisanal units (or micro-enterprises as they are now often called) to increase the volume and raise the quality of their output and to enhance their incomes and employment. The results of all of the promotional programmes have often been disappointing from the perspective of transforming those artisanal or informal units into formal small enterprises. The assistance projects have raised incomes generally, but few have managed to graduate those units or individuals into the formal business sector. Some from this sector become trainees in entrepreneurial development programmes and start formal businesses, but most are reluctant or feel unable to overcome the regulatory and other hurdles involved. Others are able to practise their technical skills but lack the entrepreneurial

traits and management skills to become successful businessmen. Nevertheless, it must be recognized that this is a significant element of potential indigenous entrepreneurship. It is worth while to seek ways of encouraging and supporting these people to expand into real entrepreneurs wherever possible.

23. Like artisans and cottage industries, traders constitute a group that has already embarked on the entrepreneurial road. Generally, commerce, whether at the level of street hawkers, kiosks or small stores or trading posts, represents the first steps for those who, either out of choice or necessity, make their livelihood, however meagre, from their own business efforts. Successful traders, even though usually lacking in technical skills, are an important human source for upgrading into small-scale industrialists where their contribution to the economy - in terms of value added - is much more significant. However, all entrepreneurship development programmes or small business promotion programmes inevitably result in some graduates of the programme going into commerce, even though this may not be considered the main objective.

24. Government and public employees have always been a major source of indigenous entrepreneurship in developing countries. Many employed in public service are also engaged in family businesses or become involved in part-time business activities either in preparation for leaving public service or before retirement, or simply to supplement very low government salaries. Lately, the introduction of structural adjustment programmes in various developing countries has displaced a large number of civil servants and public employees. Thus the government civil service and public enterprises should be regarded, as of necessity, a major source of potential entrepreneurs. The same can apply to military personnel. Whether all have the attributes to become successful entrepreneurs is questionable, although some among them certainly do. Public service is usually not the best background for operating small-scale enterprises, which requires risk taking, initiative, perseverance, quick decision making and innovation, all of which are generally lacking in the experience of those working for the Government in most developing countries. Still, it is evident that government service and public enterprises cannot in the future provide employment on the scale as in the past, and therefore it is urgent to develop programmes to imbue entrepreneurship in displaced government employees and to train them in business skills so that the more able among them can become successful small-scale businessmen.

25. Public service employees bring one important asset if they choose to become private entrepreneurs. They often have important political and government contacts and know better how the administrative and regulatory framework functions. They can use shortcuts to obtain the bureaucratic approvals where such are needed to start a business. Of course, this situation has its negative aspects, since such contacts can be the elements of questionable ethical practices and can result in enterprises flourishing and making profits not through improved performance and competitive advantages based on efficiency, but rather out of the favourable or preferential treatment from some government officials. Despite these problems, efforts must be made to find ways to encourage suitably talented persons in government service to become entrepreneurs in the private sector.

26. The groups discussed above may be the main sources of indigenous entrepreneurship but they are by no means the only ones. Displaced farmers or under-employed rural smallholders may be encouraged and assisted to start agro-processing or food industry enterprises. Special groups, such as women, youth and refugees and specific ethnic groups, are often targeted for entrepreneurship development programmes.

27. In most developing countries, there are now special programmes for helping women to start businesses or to become entrepreneurs. In many of those countries, women face major legal, social and political obstacles in participating in enterprise development, and they usually have even greater difficulties than men in obtaining finance. Special credit programmes are now available to women entrepreneurs to help them obtain not only credit, but also training in management and business. Women are now very active in micro-enterprises, the informal sector and artisanal development but they tend to participate less in formal small-scale enterprise development. Among major efforts to assist women to start and operate micro-enterprises, one may mention the successful programme of the Self-Employed Women's Association in Ahmedabad, India, which has organized and helped 35,000 women to become independent and self-employed in a whole range of occupations, and the famous Grameen Bank in Bangladesh, which, by July 1989, had given over 500,000 small loans to women for a total of close to $150 million (over 87 per cent of Grameen's clients are women).

28. Some strongly support special entrepreneurial development programmes for women, arguing that in most developing countries women are disadvantaged and even discriminated against in those programmes that include both men and women. Others believe that women should be catered to in programmes for both men and women so as to become accustomed to the real life situation where they will have to co-operate and compete with men in business. These people suggest that more should be done to ensure adequate representation of women in entrepreneurship development programmes in general and as beneficiaries in business support programmes. Whichever approach is adopted, women represent an important source of entrepreneurship and entrepreneurship development programmes and business promotion programmes should take account of this.

29. In several developing countries, special programmes are initiated to target youth as a source of entrepreneurship. This is intended to counter the problem of youth unemployment and the inadequate employment opportunities for youth finishing their schooling or vocational training.

30. Some African countries, such as the United Republic of Tanzania, Kenya, Uganda, and Malawi, and Asian countries, including Sri Lanka, Bangladesh and Indonesia among others, have also developed specific programmes for school leavers and unemployed youth, and have given them training in vocational skills as a basis for self-employment. Most of these programmes claim that around 50 per cent do become successful entrepreneurs, either as self-employed or possibly as businessmen employing one other person. In African countries the proportion is lower, probably more in the range of 20 to 25 per cent. Targeting youth in this manner raises the question whether, despite the clear need to create alternatives for youth to employment, these persons have the maturity or the self-confidence to develop as

successful entrepreneurs. Yet, if one sees the first rung of the ladder of entrepreneurship as basically self-employment, then young people with suitable attributes, given training in vocational and business skills and some advice and assistance, can be developed, for example, as independent carpenters, mechanics, painters or tailors. Those with the entrepreneurial drive and sufficient initiative may in the course of time go on to create proper small enterprises. However, the failure rate is bound to be relatively high.

31. Entrepreneurship or business development is often seen as a political solution that can help in dealing with problems of refugees or disadvantaged ethnic or tribal groups and minorities. The problem of ethnic minorities works both ways. Some minority groups, primarily expatriate immigrant groups, have been very active in business life in their countries of adoption. The entrepreneurship displayed by those groups is typical of the drive for betterment of their lives and those of their families through establishing successful and independent businesses, which are characteristic of those started by many immigrants in both developed and developing countries. There are situations where ethnic groups, minorities or refugee groups, and also in a number of cases majorities, appear to lack entrepreneurship qualities and are economically disadvantaged in relation to other groups. It is politically expedient in such situations to launch special schemes to provide incentives and subsidies and have some entrepreneurship development programmes or promotion schemes available exclusively to those groups. Even though all such programmes for special groups, including those for women, are controversial, there is a strong case for making specific resources available to those who by background, historical circumstances and possibly prejudice have not had equal access to business opportunities.

V. NATIONAL POLICY ENVIRONMENT AND ENTREPRENEURSHIP

32. Entrepreneurship cannot be expected to flourish within an environment where government policies and legal and cultural factors inhibit the development of successful enterprises. To the individual potential entrepreneur, many factors may undermine his or her ability to start a business or cause a business to fail after it has been started. Among them are macroeconomic factors, inadequate capital, taxation, regulation, poor infrastructure, and labour and environmental legislation. Sound macroeconomic policies are also a necessary condition for enterprise development. They include, for example, fiscal restraint, market-based interest rates and flexible exchange rates and prices.

33. Where there is a lack of fiscal and monetary restraint, the private sector may be crowded out and suffer the consequences of an inflationary environment. If exchange rates become overvalued with rising inflation, there is the danger of undermining the competitiveness of domestic producers in both national and international markets. If large-scale credit is subsidized or prices of labour-intensive goods are kept artificially low, there is a disincentive for the growth of smaller, labour-intensive enterprises. Similarly, in the financial sector, artificially low interest rates tend to suppress the holding of financial assets, reducing the availability of domestic financial resources for investment.

34. Inadequate capital and lack of access to credit or investment finance remain one of the most important factors inhibiting entrepreneurship. Although it is recognized that most very small-scale businesses are started on finance accumulated from personal or family savings or through private loans, there are many cases where such resources are just not available or are inadequate, even though the individual has a good viable project and all the potential of becoming a successful entrepreneur. Even when an entrepreneur launches his business without recourse to outside finance, such financing will probably become necessary as the business expands, the more so if the business is successful and grows.

35. The whole question of how to ensure adequate finance for small enterprises is a very complex issue. In nearly all developing countries, the commercial banks are reluctant to lend to new first time entrepreneurs (or indeed to any small enterprise) as the risk appears too great, the borrowers have inadequate collateral and the administrative and transaction costs of lending are high. Governments recognizing this problem have tried to make finance available to small-scale enterprises through a variety of approaches. Specialized financial institutions have been created to cater only for loans to small- and medium-sized enterprises, for example, the Small and Medium Industries Bank and the Citizen National Bank in the Republic of Korea, Corporación Nacionál Financiera in Colombia, the Industrial Development Fund (INDEFUND) of Malawi and the Small Enterprise Development of Malawi (SEDOM) and the Halk Bank in Turkey, just to name a few such institutions. Furthermore, Governments have provided special credit lines through development banks or commercial banks available only for small enterprises. Moreover, refinance or credit guarantee schemes have been developed to encourage commercial banks and other financial institutions to lend to this sector. Finally, legislation has been introduced that mandates all commercial banks to lend a specified percentage of their loan portfolios to the small enterprise sector.

36. In addition to the approaches to ensuring adequate finance in the small enterprise sector, some well intentioned government measures, such as subsidizing small business lending to provide credits at lower than commercial interest rates, have unfortunately often backfired because such lending tends to end up with privileged and well connected borrowers and thus encourages use of the finance for uneconomic projects. Special incentives to development and commercial banks to lend more to this sector, but at full commercial or positively real interest rates, are more beneficial to the development of healthy entrepreneurship in the long run.

37. Finance remains a key problem for small enterprise in all countries. Those who believe that liberalizing the economy and the financial sector will resolve this problem have failed to take account of the imperfections of financial markets and the issue of high transaction costs and perceived risk in lending to this sector. Transaction costs can be lowered by having support agencies identify and screen potential borrowers and help them prepare loan applications in a form acceptable to the banks. Also, various schemes of linking informal with formal lenders can reduce the transaction costs of lending to small borrowers.

38. In many countries, taxation and fiscal policies prevent entrepreneurs from accumulating the capital they need to develop their businesses. The result is either tax avoidance or the encouragement of an underground or informal economy in

which entrepreneurship remains stunted and unable or unwilling to expand into the formal business community. Small-scale entrepreneurs must recognize an obligation to pay taxes but the tax régime must also be reasonable and of a nature to permit the needed accumulation of capital by entrepreneurs and to allow sufficient returns to encourage investment in productive enterprises. Tax régimes should be administered in a manner so as not to make compliance too onerous or bureaucratic nor make small business the subject of excessive harassment that could deter enterprise growth.

39. This applies not only to income and business taxation but also to indirect taxation as well. Imposing levies on imported capital goods and equipment, spare parts and intermediate goods, or semi-finished components, can also raise production and investment costs to the point of making projects unfeasible or non-competitive. The same may also apply to payroll taxes that discourage employment, and sales taxes or similar taxes that reduce demand for products or levies on business property, energy inputs and communications, all of which can prove counterproductive in stimulating entrepreneurship. Of course, Governments have to introduce taxes to raise needed revenue, but this must be done in a fashion so as not to deter entrepreneurial and business development nor, as in several developing countries, to encourage the growth of a large non-tax paying "informal" sector.

40. Regulations in some countries can make it a daunting proposition to meet all the regulatory requirements to start and operate a new business. In many countries the legalities necessary to register a new business are complex and time-consuming, which is one of the explanations for the large informal sector in developing countries. Conforming with regulations involves an inordinate investment in time, effort, and in some cases money, which small-scale entrepreneurs can ill afford.

41. Countries wishing to encourage entrepreneurship would be well advised to ease the entry of new entrepreneurs into business through the reduction of regulatory restrictions and requirements on starting, registering and operating businesses and through the simplification of regulations so that compliance is made easier and less time consuming and costly. The levies, duties and other payments required to obtain a permit to start a business need also to be kept to a minimum so as not to constitute a financial burden on startup enterprises.

42. Inadequate investment in infrastructure, such as roads, transport, water, telecommunications and energy of developing countries, has an adverse effect on the development of local entrepreneurs. The poor infrastructure makes it impossible for some enterprises to develop and raises the costs for those engaged in productive activities because of the higher cost of inputs.

43. It is the Government's role to ensure adequate infrastructure for the economy and the business community. Apart from providing the basic communication and service facilities that enterprises need in order to operate efficiently, some Governments seek to encourage enterprise development through the establishment of special industrial estates and business incubators, making sites and factory premises with all needed services available on moderate terms. Estates in some countries have proved costly and ineffective, but in others which have an abundance

of entrepreneurs (Turkey, Cyprus and India), they have proved a valuable source of help to new enterprises and expanding small industries. The provision of industrial estates without other measures such as training, credit facilities, advice and information will not of itself make a major contribution to stimulating entrepreneurship.

44. Labour legislation and environmental protection are also areas where an appropriate balance needs to be struck between the protection of workers and the environment and the burden imposed on enterprises. While legislation and regulations in these areas are highly desirable, they should not inhibit the development of entrepreneurship or lead entrepreneurs to operate illegally in the informal sector.

VI. POLICIES TO ENCOURAGE ENTREPRENEURSHIP

45. Policies and measures implemented on a broader scale and aimed at creating a more open environment and the removal of restrictions that could impede the emergence of new enterprises are the most important measures to encourage entrepreneurship. More specifically, government policies should aim to reduce the strangleholds of monopolies and oligopolies on the domestic economy and encourage more competition between producers. This in turn would lead to the emergence of new enterprises and more entrepreneurs. The Government could also ease the "start-up" of new businesses through easing regulatory controls on the establishment of new enterprises and on the operation of existing ones.

46. Other important types of steps to encourage entrepreneurship are positive measures to help those who follow the entrepreneurial road by (a) easing access to credit both through a general liberalization of the financial system and the introduction of special schemes to channel finance to the small enterprise sector, (b) initiating special training programmes to identify and assist potential entrepreneurs to acquire management skills and upgrade technical knowledge, (c) creating special facilities for new and expanding enterprises through industrial estates, technical service centres and marketing organizations, and (d) facilitating access to government procurement and helping in the development of information and advisory services to provide aid to fledgling entrepreneurs to overcome their production, marketing and management problems.

47. In creating special facilities for new and expanding enterprises, most Governments aim to provide help through public institutions and agencies. Government help with external donor support is usually indispensable, but because of the many problems experienced with government institutions such as staffing, management, bureaucracy, political interference etc., many developing countries have experimented with the use of non-governmental organizations or business associations. One should not ignore the possibilities of enlisting the help of universities and higher educational institutions (especially in training and the provision of technical advice) and larger, more established enterprises.

48. A few Governments have tried to help small industries through regulations reserving the production of certain items to manufacture only by small firms.

However, it has been gradually recognized that this creates economic distortions and can be damaging to industrial development as a whole by adversely affecting production standards and the technological advancement that the country needs to compete effectively in the export markets.

49. Governments intent on encouraging local entrepreneurship have to create suitable channels for promoting small business and for delivering the various forms of assistance needed for the development of successful indigenous entrepreneurs. Most Governments set up public agencies or direct government support institutions for that purpose. In some cases, it takes the form of integrated comprehensive institutions that offer all forms of support in finance, training, advice and help in identifying business opportunities. Other forms of direct aid are the setting up of factory sheds on industrial estates and assistance in obtaining orders from the public sector or in fields such as technical information, design and export. In other cases, the different forms of support such as finance training, advice etc. are given by separate institutions. In some cases help is decentralized to regional (especially in larger countries) or to sectoral institutions (metal, wood, textile, shoes etc.).

50. Over the years, the experience with larger centralized small enterprise support institutions has been disappointing. The institutions, with a few exceptions, were not well managed and were staffed with inadequately qualified persons. They developed unwieldy bureaucratic structures, expanding to a range of activities for which they had neither the competence nor the resources. Supported as all these institutions were from government or external donor funds through government channels, they suffered from budget shortages and political interference. Smaller institutions that are based regionally, more focused in their activities or designed to cater to specific sectors, generally fared better.

51. Despite the problems that have arisen in those small enterprise support institutions, some form of institutional support for small enterprise development is necessary. If non-governmental organizations such as small business associations are able to undertake many of the services, such as training and advisory services, and can operate, as in some cases, information centres or credit guarantee schemes, the Government can confine its support to financing the assistance.

52. In most developing countries those private sector organizations are not strong enough to undertake this role or can do so only to a limited extent, and it remains for the Government to set up and support public institutions to carry out those tasks. However, it would be advisable to encourage, as far as possible, the gradual takeover of some services by local business organizations and to support the break-up of larger, national public institutions into smaller, more focused organizations with a more limited range of activities, co-operating with each other and co-ordinated by a central council.

53. The major functions of small enterprise support institutions include identifying opportunities for small-scale projects, screening potential entrepreneurs, advising and assisting in business start-up, helping existing firms

to improve performance, organizing training courses and helping small businesses with innovation and the introduction of new technologies.

54. The provision of credit or direct financial assistance is generally not a major function of those institutions. Although some support institutions do operate direct credit programmes, that is generally considered the task of development, commercial or financial institutions. The institutions could help businesses to prepare suitable bankable loan applications for obtaining the financial assistance. Unfortunately, however, in many cases they are not in a position to manage financial assistance programmes effectively. Finance, as already stated, remains an essential element of support and a way has to be found for the financial institutions to become involved.

55. All support institutions, if they are to succeed in helping develop entrepreneurship and promote small business, must gain and maintain credibility in the eyes of their prospective clients, that is, entrepreneurs and small businesses, in the local community at large, the financial institutions, and the different government bodies. They must offer an appropriate service that satisfies demand and avoids overlapping with services that other institutions provide better, but at the same time they must be ready to refer clients for help to individuals or institutions that are better placed to provide the help needed. Entrepreneurship development programmes are often offered by this type of small enterprise support institution, but they are also offered no less successfully in some cases by universities, business schools and colleges, special institutes, banks and financial institutions and by associations and chambers of commerce.

56. The privatization of public enterprises is viewed as another means of promoting entrepreneurship, as privatized enterprises are released from the influence of governmental decision-making, thus giving primacy to economic criteria and reducing political and social constraints involved in government control. Political considerations have been a major problem in privatization, since disengaging the State from the social and economic structures is a complex task, partly because there is often a clash between the goals of maximizing short-term gains through revenue from sales and establishing a more efficient economic structure. Moreover, many developing countries face problems in attracting private capital in their privatization efforts.

VII. CO-OPERATION BETWEEN NATIONAL AND FOREIGN ENTREPRENEURS

57. Co-operation between national and foreign enterprises is an effective commercial way of promoting entrepreneurship in developing countries. For a long time it took place mostly as co-operation between multinational corporations and domestic state-owned and large enterprises. More recently, co-operation has also involved foreign and national small- and medium-scale enterprises.

58. The attitude in developing countries towards big business in general, and co-operation with foreign multinational corporations in particular, has changed over the years. In the 1950s and 1960s, when large-scale modern industries were seen as the key to rapid economic development, multinational corporations were made

welcome. By the 1970s that attitude had changed substantially and relations with multinationals were seen as disadvantageous for developing countries. During the 1980s, Governments in developing countries have reverted to valuing, albeit with considerable caution, the economic and technological contributions that multinational corporations could make. Many multinational corporations try to reconcile contributions to local development with their long-term business objectives. As a part of this effort, a number of multinational corporations have begun to show interest in assisting national small- and medium-scale enterprises, especially where they feel these enterprises have relevant skills and resources to offer.

59. During the past decade there has been a significant increase in the number of multinational corporations from the newly industrialized countries - India, Brazil, the Republic of Korea, the Territory of Hong Kong, Taiwan Province of China and Singapore. They have successfully established operations with national enterprises in the less developed countries, initially within the same region and later outside it. Those multinationals offer particular advantages to national entrepreneurs compared with their counterparts from developed countries: lower capital costs, intensive technologies suitable for smaller markets; often a better understanding of the political environment as well as of local market conditions; and lower management costs.

60. There is a great diversity of ways in which multinational corporations are co-operating with national enterprises. One of the major ways is subcontracting. Many multinationals draw on the services of small-scale and medium-scale subcontractors for supplying raw materials, semi-processed goods, components, finished goods and spare parts. This involves a large amount of small- and medium-sized enterprises in the process of collaboration and helps those enterprises to expand and improve their production. Assistance provided by multinational corporations includes development of product design and production techniques, technical training and production supervision.

61. That type of relationship can promote exports and is in many cases a form of technical assistance, as the subcontractor usually works to the specifications of the foreign contractor while maintaining his independence. Sometimes, local firms need to guard against excessively low costs with wage levels forced down through international competition. In many cases, as in some exporting processing zones, little technology transfer takes place and the 20 to 25 per cent of the product subcontracted usually consists of the final assembly operations in which only unskilled labour is required. As employment creation is an important need in most developing countries, even this type of subcontracting of unskilled operations is eagerly sought. Dynamic local entrepreneurship can usually expand the range of work subcontracted and sometimes can graduate from this type of arrangement to independent manufacture. For this reason it is advantageous for a developing country, if possible, to encourage subcontracting to locally owned enterprises rather than the creation of subsidiaries of foreign firms to carry out the operations.

62. Another major area of co-operation is sales. This can take place by utilizing the services of national enterprises to market the products or services of the

multinational corporations and to undertake a variety of after-sales functions, including franchising, licensing, distributing, dealing, retailing and servicing, and also by specially developing and marketing new products.

63. Product franchising was specifically associated with the distribution of brand-name products in North America and Europe. However, by the middle of the twentieth century, a number of large manufacturers, those of soft drinks and automobiles, for example, had found this form to be an efficient method of entering markets of developing nations. Business format franchising is a more recent phenomenon. Although less familiar in developing countries than product franchising, it provides an efficient way of importing marketing and retail know-how while simultaneously creating opportunities for prospective local entrepreneurs.

64. In many cases, the strengthening of the collaboration takes the form of joint ventures. Joint venturing, particularly because of financial limitations, is often the preferable solution for small businesses. Successful joint ventures obviously foster the achievement of major goals by each party. The major goals for foreign firms entering into a manufacturing operation in a developing country with a considerable domestic market might be growing market size, reasonable risk and a satisfactory rate of return in the medium or longer term. National enterprises may have the goal of entering into a profitable manufacturing operation with a foreign firm that can provide essential technology, business know-how, trademarks and access to international markets. Obviously, the Government of the host country, through the joint venture arrangements, aims at attaining several goals, including contributions to industrialization, increases in national income and employment, and an acceleration of the economic development of the country.

65. However, government policies that have a direct negative effect on promoting joint ventures may be observed in a number of developing countries. For example, joint ventures are prohibited in a number of industries and some governments impose restrictions on the share a foreign investor may hold. Also, government restrictions and bureaucratic procedures have a negative impact on the co-operation between small-scale foreign and national enterprises, which now play a significant role in the international enterprise-to-enterprise co-operation. Finally, price and foreign exchange controls, state monopolies in certain industries, subsidies and other forms of government intervention can have a discouraging effect on the co-operation between national and foreign enterprises.

66. Many small-scale and medium-scale enterprises in developing countries are also family-owned businesses. These enterprises tend to be reluctant to co-operate closely with foreign parties, partly because they fear a loss of influence on their firm.

67. Particularly positive examples of promoting co-operation by small- and medium-sized enterprises with foreign partners can be observed in East and South-East Asia. The development of high-tech entrepreneurship attracted foreign enterprises, particularly from Japan. A number of dynamic Japanese high-tech entrepreneurs took advantage of lower labour costs and entered new markets in that area either directly or through a local partner. Since finding the right partner

is often a difficult problem for the entrepreneur to solve, small Japanese high-tech businesses have organized venture business clubs to establish personal direct contacts with entrepreneurs in developing countries. The result was a number of agreements and the establishment of several high-tech networks.

VIII. THE ROLE OF BILATERAL DONORS AND MULTILATERAL ORGANIZATIONS IN DEVELOPMENT OF ENTREPRENEURSHIP

68. Beside benefitting from co-operation among themselves, entrepreneurs can also be assisted in their development by bilateral donors and multilateral organizations. The objective of such assistance has been to stimulate the private sector in developing countries and create a counterbalance to large-scale public enterprises. Many organizations feel that small enterprises promote greater employment from a given source of capital than do larger ones and that locally available skills and labour are put to better use.

69. Both bilateral donors and multilateral organizations assist enterprises in developing countries in various ways, which include linking local entrepreneurs to foreign enterprises, marketing assistance and training. Furthermore, donors have assisted through facilitating access to finance and technology.

70. To promote linkages between national and foreign entrepreneurs, the Swedish International Development Authority (SIDA) carried through the Sister Industries Programme in the United Republic of Tanzania, a link-up whereby some smaller Swedish enterprises established a direct "sister" relationship with new local industries that they helped to establish. The local entrepreneur was assisted with financial credits, advice and training both for himself and his workers. The Swedish "sister" firm also sent over managers and technicians for short periods in the installation and "running in" phases and helped to find overseas markets for some products. The whole programme was financed by SIDA with aid funds, which included all the costs of the Swedish firms. This SIDA-supported programme has resulted in 25 new small industries in operation on the industrial estates of Arusha, Moshi and Mbeya in the United Republic of Tanzania. A similar programme has now been started in Zambia. Other bilateral agencies (for example, the Norwegian aid agency NORAD) have started similar programmes in Africa.

71. Further, "twinning" has become a popular form of promoting co-operation. This term usually refers to a direct link between institutions or business associations in developed and developing countries. The German Agency for Technical Co-operation (GTZ) has developed a "twinning" programme between the German craft chambers and fledgling associations of industrialists in developing countries, in which the former offer help with training, advice, information and financial support. They aid the local association in providing service to members who are generally small-scale local entrepreneurs. The German partner or "twin" caters to small enterprises and tailors its help to the needs of enterprises in the recipient countries.

72. "Twinning" has to a limited extent also been fostered between small enterprises engaged in similar activities in developed and developing countries.

The relationship is a loose one without contractual obligations on either side. It is rather based on advice and information exchange or mutual visits as the need arises. Such a relationship can be of great use to a new enterprise engaged in a new field of production.

73. In the United States of America, Appropriate Technology International (ATI), created as a private non-profit corporation in 1976 and funded primarily by the United States Government, aims to work in active co-operation with local business and organizations in Africa, Asia and Latin America to identify, disseminate and transfer technologies, and establish commercially viable enterprises. ATI operates in 21 countries and supports efforts to develop new technologies using local resources or to diffuse and replicate existing ones that can principally benefit the rural poor.

74. Among multilateral organizations, the United Nations system, in particular the International Labour Organisation (ILO) and the United Nations Industrial Development Organization (UNIDO), has contributed to the promotion of indigenous entrepreneurship in developing countries through research, training and technical co-operation. As the transfer of technology has become one of the key points in promoting entrepreneurship, various United Nations bodies have launched programmes that are related to technology transfer.

75. UNIDO has plant-level co-operation programmes for the transfer of technology to small- and medium-scale enterprises. This programme is to mobilize the private sector in the industrialized countries as a source of technology for "partner enterprises" in the developing countries. The programme is funded by different developed countries and each project in the framework of the programme covers three or four developing countries and concentrates on a specific industrial sector.

76. ILO, which sees its efforts of promotion of small- and medium-sized enterprises as important for entrepreneurship development, conducts a range of activities designed to assist potential entrepreneurs through development of skills in the management field.

77. The International Trade Centre is a United Nations agency that provides technical assistance to developing countries in the field of trade promotion. The assistance extends to the small- and medium-enterprise level. The Centre perceived considerable interest on the part of small and medium-sized enterprises in developing countries in enhancing their export potential through linkages with more technologically advanced companies in the developed countries.

78. The Centre for Science and Technology for Development of the United Nations promotes the implementation of the Vienna Programme of Action on Science and Technology for Development through fostering the endogenous scientific and technological capacities of enterprises in developing countries.

79. The United Nations Centre on Transnational Corporations' EMPRETEC programme (Empresas Tecnológicas) is organized jointly between the United Nations and the public and private sectors. It identifies and selects new entrepreneurial leaders and helps them develop their companies. The participating entrepreneurs have been

encouraged to form associations, which have become the focus of business exchanges, joint ventures, sales agreements and monthly training and information seminars.

80. In response to the lack of funds as a limiting factor in entrepreneurship development, the United Nations Capital Development Fund offers small loans for small enterprise development to the least developed countries. The Fund uses its limited resources not only for direct lending but also as guarantee and as "quasi-equity". Local non-government organizations have been used by the Fund as credit intermediaries. In some countries non-financial institutions have been used to channel credits because of the inability of the financial institutions in those countries to work with small-scale enterprises.

81. By the mid-1970s, the larger multilateral financial institutions, the World Bank and the regional development banks (Inter-American and Asian Development Banks) began to develop projects to provide finance for small enterprises. A recent report of the World Bank's lending programme states that the credit programme achieved its objectives in several of the Asian and Latin American recipient countries where the banking system and the industrial sector were adequately developed. The commercial banks have been cautiously willing to lend the money received from the World Bank to small borrowers under the conditions of refinancing arrangements with adequate lending margins.

82. The Asian Development Bank in Asia and the Inter-American Development Bank in Latin America have also approved substantial loans for small-scale enterprise lending in their regions, usually through the same institutions used by the World Bank. Other banks that have extended loans to small-scale enterprises in the African countries are the African Development Bank, the European Investment Bank, and the European Development Fund of the European Economic Community. Some other bilateral agencies that have provided credits to small-scale enterprises have been the Kreditanstalt für Wiederaufbau (KFW) of the Federal Republic of Germany, the Netherlands Development Finance Company (FMO) and the United States Agency for International Development's Private Sector Revolving Fund. The latter extends loans and loan guarantees at close to commercial terms to private financial institutions in developing countries for lending to local small businesses.

83. When faced with the issue of defining the target group, that is, the enterprise that should be given assistance, most external donors, including the World Bank, leave it to the Government. Owing to the stated objectives of alleviating poverty and of spreading the benefits of the assistance programme, there has been a tendency to assist microenterprises.

84. Beside providing financial assistance to small enterprises in developing countries, donor organizations have also aimed to help influence Governments to adopt more favorable policies towards development of small enterprises and to supply other forms of technical, management and marketing assistance. In some cases, the small enterprise projects of the World Bank have also funded the industrial estates and technical services centres along lines similar to the projects of the United Nations agencies. However, the World Bank has lacked the resources and experience to carry out programmes for non-financial assistance, and its non-financial and technical assistance components have lagged in

implementation. In the later projects of the 1980s, financial assistance programmes and those offering technical and management aid have been better synchronized, improving co-operation between the World Bank and the United Nations multilateral and bilateral agencies.

85. Donor agencies have also tried, especially since the early 1980s, to channel their support through non-governmental organizations because they are less bureaucratic and more in touch with the needs of small enterprises and are well suited to serve special target groups like women and the poor. The advantage here is that the bilateral donors are able to link the private voluntary organizations in the donor countries with the non-governmental organizations in the recipient developing countries. Facing reluctance from the formal financing organizations, the non-governmental organizations have begun to disburse credit directly. Their credit programmes acquire aid from many bilateral donor agencies.

86. It is important that all donors and those directly involved in small enterprise development understand the impact of domestic and international policies on the small enterprise sector. Donor agencies, both multilateral and bilateral, have done a great deal in the past to promote local enterprises and small businesses in developing countries. In some countries, local entrepreneurship has developed rapidly, but in others indigenous entrepreneurs are relatively few and in need of considerable help. The international community still has a major task ahead to help expand significantly the number of indigenous enterprises in those countries. More financial and technical resources and a more positive international economic environment will be needed to achieve this objective.

IX. INTERNATIONAL POLICY ENVIRONMENT AND NATIONAL ENTREPRENEURS

87. The international policy environment has a significant impact on the development of indigenous entrepreneurship. This is important to bear in mind when evaluating the promotional policies of national Governments and the support provided by bilateral donors and multilateral organizations.

88. However, the influence of the international policy environment is difficult to assess, partly because entrepreneurs in individual countries are affected to a different extent and partly because developing countries vary in their level of economic development, degree of integration into the world economy and composition of international trade and finance. In spite of these and other difficulties some generalizations can be made.

89. Export-oriented enterprises in developing countries depend particularly on economic growth in developed countries and to some extent on growth in other developing countries for the expansion of their markets. It appears that growth in developed countries in the first half of the 1990s will be slightly above the average of that in the previous decade. The overall outlook for economic growth in developing countries and thus for South-South trade is less favourable except for East and South-East Asia.

90. Enterprises in developing countries suffer from a variety of trade restrictions inhibiting their access to developed country markets. Overall reduction of tariffs and the resolution of various issues on trade are therefore important points on the international policy agenda. Progress in this area will also benefit the nascent industries.

91. The productivity and thus the competitiveness of export-oriented enterprises in developing countries depend to a significant extent on the availability of foreign exchange for the purchase of capital goods and inputs. In the 1980s the availability of foreign exchange was sharply reduced by the deterioration of the terms of trade, high requirements for external debt service, capital flight and diminished access to international finance. Diversification of exports is one of the medium- to long-term solutions to the vulnerability of developing countries to terms of trade deterioration. It is hoped that effective short- and longer-term solutions will be found to reduce the drain of foreign exchange from debt service and repayment. Furthermore, the confidence of foreign commercial lenders should be strengthened by the implementation of balanced adjustment policies. Adjustment policies in general tend to reduce the demand for goods in the short term and may thus cause transitional problems for enterprise development. High payments for servicing the external debt are also a burden on the government budget and may require, among other things, higher taxes and lower expenditures on infrastructure. Those and similiar adjustment policies will be a disincentive to entrepreneurship development. It will thus be necessary to buffer the cost of the adjustment period for vulnerable, yet potentially viable, enterprises.

92. This task could be facilitated if, in addition to external debt relief and further incentives for an enhanced inflow of capital on commercial terms (including foreign direct investment), additional official development assistance (ODA) could be made available. The growth of aid has been slow in the past decade, in particular relative to the growth of outflows for debt servicing and repayment. The prospects for the growth of ODA in the 1990s are uncertain, and the demand for capital by Eastern European countries might compete with the need for developing countries in this regard.